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# ASB meeting minutes, 1998, June 3

American Institute of Certified Public Accountants. Auditing Standards Board

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## ASB Meeting Minutes, June 3, 1998

Meeting: Auditing Standards Board

Date: June 3, 1998

Location: American Institute of CPAs  
1211 Avenue of the Americas  
New York, NY 10036

### Meeting

Attendance: Deborah D. Lambert, Chair  
James S. Gerson, Vice-Chair  
John L. Archambault  
Andrew J. Capelli  
Richard Dieter  
John A. Fogarty, Jr.  
Stephen D. Holton  
Norwood J. Jackson, Jr.  
Charles E. Landes  
Stephen McEachern  
Kurt Pany  
Alan Rosenthal  
George H. Tucker

W. Ronald Walton

Absent

J. Michael Inzina

Other Participants

Thomas Ray, Director, Audit and Attest Standards

Julie Anne Dilley, Technical Manager, Audit and  
Attest Standards

Gretchen Fischbach, Technical Manager, Audit and  
Attest Standards

Kim Gibson, Technical Manager, Audit and Attest  
Standards

Jane M. Mancino, Technical Manager, Audit and  
Attest Standards

Judith M. Sherinsky, Technical Manager, Audit and  
Attest Standards

Observers

Scott Bayless

Joe Benz

Luis Cabrera

Joanne Mary Flood

Dave Frasier

Chris Galer

Deborah Koebele

Pam Smalls

Jeff Thomson

#### I. CHAIR AND VICE CHAIR'S REPORT

Deborah D. Lambert, Chair, and James S. Gerson, Vice Chair,  
reported on the Audit Issues Task Force (AITF) meeting of May 20,  
1998. A copy of the highlights for the meeting are attached.

## II. DIRECTOR'S REPORT

Thomas Ray, AICPA Director—Audit and Attest Standards, reported on the following matters to the ASB.

### A. Meeting with the Governmental Accounting Standards Board

On May 11, 1998, T. Ray, J. Gerson, Mary Foelster, AICPA Technical Manager and staff liaison to the AICPA Government Accounting and Auditing Committee (GAAC), Tim Green, GAAC Chair and George Scott, former GAAC Chair, met with the Governmental Accounting Standards Board (GASB). The GASB had several questions about the application of materiality and the scope of auditing procedures to various types of financial information included in or associated with financial statements (for example, footnotes required by generally accepted accounting principles, and required supplementary information).

### B. Meeting with the SEC Division of Market Regulation

On May 22, 1998, D. Lambert, J. Gerson, Arthur Tully, member of the AICPA Stockbrokerage and Investment Banking Committee, and T. Ray, met with Richard Lindsey, Director of the SEC Division of Market Regulation, other representatives from that division, and several representatives from the SEC Office of the Chief Accountant. The purpose of the meeting was to discuss the AICPA's recommendations with respect to the SEC's proposed rules related to reporting by registered broker-dealers about their year 2000 readiness. The SEC has agreed to work with AICPA representatives to develop agreed-upon procedures designed to satisfy the SEC's requirements related to CPA attestation of broker-dealer assertions on the year 2000.

## III. AGENDA ITEMS PRESENTED AT MEETING

RESTRICTED-USE TASK FORCE (File Ref. No. 4275):

The Restricted-Use Task Force (task force) considered areas of the auditing and attestation standards that prescribe restrictions on the use or distribution of accountants' reports to determine whether standards should be developed that describe the characteristics of the subject matter, nature of the engagement, or other factors that might necessitate a restriction on the use of an accountant's report. In January 1998, the Auditing Standards Board (ASB) issued an exposure draft of a proposed Statement on Auditing Standards (SAS) titled Restricting the Use of an Auditor's Report that contains guidance designed to help auditors determine whether an engagement requires a restricted-use report and, if so, what elements to include in that report. John J. Kilkeary, chair of the task force, led the ASB in a discussion of a draft of the proposed SAS that was revised to reflect certain recommendations made in the comment letters on the exposure draft. Some of the more significant changes that were made to the exposure draft are the following:

- The applicability paragraph was revised to indicate that only the reporting guidance in the proposed SAS is not applicable to service auditors' reports issued under SAS No. 70, Reports on the Processing of Transactions by Service Organizations, and reports issued under SAS No. 72, Letters for Underwriters and Certain Other Requesting Parties. The remainder of the guidance is applicable to those reports.
- A paragraph was added to the proposed SAS indicating that the inclusion of a separate restricted-use report in a document that also contains a separate general-use report does not result in a restriction on the use of the general-use report. Also, a footnote was added to that paragraph indicating that these situations occur in audits performed in accordance with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and U.S. General Accounting Office Government Auditing Standards.
- Footnote 6 was expanded to indicate that a regulatory agency, as part of its oversight responsibility, may require access to restricted-use reports in which they are not named as specified parties.
- A footnote was added indicating that the SAS does not preclude

an auditor, in connection with establishing the terms of an engagement, from reaching an understanding with a client that the intended use of the report will be restricted, and obtaining the client's agreement that the client and the specified parties will not distribute the report to parties other than those identified in the report.

The ASB recommended that the draft be revised to include an appendix identifying all of the restricted-use reports in the SASs and in AICPA Audit and Accounting Guides that would require conforming changes as a result of the issuance of the proposed SAS.

The ASB voted to ballot the revised draft of the proposed SAS for issuance as a final SAS.

#### Summary of Board Preference Vote Restricted Use Task Force (File Ref. No. 4275)

	For	Against	Abstain	Absent
Should the revised draft of the proposed SAS, Restricting the Use of an Auditor's Report, be balloted for issuance as a final SAS?	14			1

#### PRINCIPAL AUDITOR:

Chris Galer and Deborah Koebele, members of the Technical Audit Advisors Task Force (task force), made a presentation on the Principal Auditor project that the task force has been investigating. The task force has identified issues that the Board may wish to address by amendment to AU section 543, Part of Audit Performed by Other Independent Auditors, and possibly other sections of the professional literature. The primary issue relates to clarifying the characteristics that define a principal auditor relationship and that distinguish it from other kinds of working relationships with auditors such as joint audits, joint ventures, equity method investment situations, and use of SAS 70 reports. Other issues included whether the difference between "evidence" and "reliance" should be

clarified; whether the attestation standards need analogous guidance; and whether AU section 543.12 should be expanded to make additional procedures (such as reviewing the working papers of the other auditor) available to a principal auditor who makes reference to the audit of another auditor.

ASB members discussed the possible scope of a principal auditor project. The ASB also discussed a potential project to consider issues that arise in auditing a virtual entity, that is, an entity where significant portions of operations are outsourced.

The ASB took several preference votes to assess the relative priorities of the principal auditor issues as compared to virtual entity/outsourcing issues. The preferences were assessed with "A" representing the highest priority and "C" representing the lowest priority. Votes were as follows:

Principal auditor issues:	A-0, B-9, C-3
Virtual entity/Outsourcing:	A-3, B-9, C-0

The ASB also took a preference vote to determine which subject would be undertaken as a project if only one was undertaken. Votes were as follows:

Principal auditor issues:	3
Virtual entity/Outsourcing:	9

See [Attachment to Highlights of Auditing Standards Board Meeting](#)

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